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C O N F I D E N T I A L SECTION 01 OF 04 TEGUCIGALPA 000897

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E.O. 12958: DECL: 05/16/2016
TAGS: [ENRG](#) [EPET](#) [HO](#) [PGOV](#) [PINR](#) [PREL](#)
SUBJECT: HONDURAS: ALLEGED PETROCARIBE - ELECTRICITY FUEL
DEAL FIZZLES; NATIONAL BID "SET UP TO FAIL"?

REF: TEGUCIGALPA 809 AND PREVIOUS

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Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

1.(C) Summary: A key advisor to Honduran President Jose Manuel &Mel8 Zelaya has indicated that a potential PetroCaribe deal with parastatal energy company ENEE is off, but rumors persist that Venezuelan parastatal oil company PDVSA remains interested in purchasing Honduran fuel importer, distributor and retailer DIPPSA. A Honduran businessman with close ties to President Zelaya will travel to Caracas soon in an attempt to resurrect PetroCaribe,s financing scheme, but under the aegis of a commercial deal that could involve DIPPSA and Honduran Bank Banco Atlantida. Meanwhile, President Zelaya met with Venezuelan President Hugo Chavez and delivered a commitment to include PDVSA and PetroCaribe in the upcoming national bid for fuel imports. That bid may run into serious roadblocks however, if as some believe, President Zelaya is &setting it up to fail.8 END SUMMARY.

IMF Sounds Warning; Zelaya Listens

2.(C) In a phone conversation May 11 with EconOff, Presidential Advisor Enrique Flores Lanza confirmed that a rumored PetroCaribe) ENEE deal is now off. Flores also stated that prior to a planned IMF meeting &Mel was very interested in using PetroCaribe financing to help save ENEE8 but changed his mind when the IMF questioned the financial implications of the deal. (NOTE: EconOff had raised the PetroCaribe issue with the IMF representative two weeks ago, and EconChief talked extensively with the head of the IMF delegation to express USG concerns on the issue a day before they met with President Zelaya. END NOTE.)

3.(C) On May 12 the IMF country team ended its semi-annual audit of Honduran financial performance without reaching a

final conclusion or agreement with the GOH. Talks continue, but early results suggest the Honduran economic situation is &better than expected.8 Of greatest concern to the team was the condition of key parastatal institutions, particularly ENEE. The electricity parastatal is well over USD 100 million in debt and requires significant new investment in transformers and other generation and transmission assets. Losses continue to mount for the company as electricity rates (even with a "fuel adjustment" surcharge) remain below generating costs. If the GOH were to pursue a PetroCaribe deal, financing derived from it could potentially qualify as concessional (therefore not violating any agreements with bilateral and multilateral donors following Highly Indebted Poor Country (HIPC) debt relief in 2005). However, if used to bail out ENEE, such debt would increase the existing fiscal deficit. Depending on the magnitudes of other state expenditures, such additional debt could breach the fiscal deficit ceiling agreed to with the International Monetary Fund.

14. (C) Later on May 11 EconChief, PolChief, and EconOff met with Honduran businessman and Christian Democratic Party leader Arturo Corrales, who confirmed that a government to government PetroCaribe program for ENEE had been abandoned by President Zelaya. Corrales is a political dealmaker that Zelaya (Liberal Party) and his National Party predecessor have worked closely with, partly due to his small party,s clout in deals, and partly due to his skills as a political pollster. He also owns SEMEH, the company that reads ENEE,s power meters and bills and collects on payments. Corrales claims to have repeatedly stressed to President Zelaya that &you can have PetroCaribe or CAFTA, but not both.8 Zelaya has since asked Corrales to visit PDVSA in Caracas and broker a deal for a &commercial8 version of PetroCaribe that would keep the GOH out of the plan. This proposed arrangement could potentially involve Honduran Bank Banco Atlantida,

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which would hold the up to 40 percent of the fuel bill being financed in a special interest bearing escrow account. These "savings" could then be parceled out to fund a series of to-be-defined benevolent projects for the Honduran people. Corrales plans to leave for Venezuela as early as this week. (NOTE: Corrales, SEMEH, like many other companies, is owed millions of USD by ENEE. Banco Atlantida is also an equity partner in SEMEH, and is the financial backer of the recent USD 55 million purchase of Honduran fuel importer DIPPSA by former minority partner Henry Arevalo. END NOTE.)

DIPPSA Intrigue Continues; PDVSA Still in the Picture

5.(C) In addition to the prospect of a PetroCaribe deal for fuel imports, Post also continues to monitor reports of PDVSA interest in buying access to the Honduran market by purchasing local firm DIPPSA. On May 8 EconOff spoke with DIPPSA,s general manager, Fernando Cevallos, about the rumored PDVSA involvement in the recent sale of DIPPSA. Per Cevallos, Henry Arevalo was the only buyer and there were no other parties involved. According to Exxon's country manager, consistent with contractual arrangements, Arevalo had contacted Exxon weeks ago regarding his proposed purchase of the outstanding DIPPSA stock.

6.(C) Cevallos admitted that DIPPSA had been approached a few months ago by leftist El Salvadorian mayors and local Nicaraguan politicians seeking to access PetroCaribe directly. They inquired about the use of DIPPSA facilities for the storage and distribution of PetroCaribe related fuel purchases. Cevallos says he told them that &no deal is possible without Exxon,s support.8 (COMMENT: Based on other conversations between EconOff and Exxon, this reading is somewhat at odds with Exxon's view of the situation. Following a conference call with Ambassador and senior U.S.-based Exxon officials, Exxon informed Post that while

they are 50 percent owners in DIPPSA, San Lorenzo storage facility, they have no operational control over the facility.

In principle, they oppose using that storage to facilitate PetroCaribe imports to supply FMLN mayors in El Salvador or FSLN mayors in Nicaragua, but in fact Exxon might not be in a position to actually block the move. END COMMENT.)

7.(C) Corrales provided more details on the sale of DIPPSA. According to Corrales, former 40 percent minority shareholder Henry Arevalo purchased the outstanding 60 percent of stock from former owner Jose Lamas. Several sources had previously indicated that Venezuelan parastatal fuel company PDVSA might be providing the funding behind the deal. According to Corrales, however, 100 percent of the financing for Arevalo's purchase came from Banco Atlantida. In a subsequent May 12 conversation, Ficohsa Bank CEO and former Minister of Investment Camilo Atala told Ambassador and EconChief that Arevalo had borrowed USD 18 million to purchase the additional 60 percent stake in DIPPSA, while also borrowing USD 34 million to repay existing debt to other creditors, particularly Banco Mercantil (BAMER). Atala thought USD 18 million a low value for 60 percent of the company, since such a price implies a total company value of only USD 30 million for a firm with 25 market share of all gasoline sales in Honduras.

8.(C) However, according to Corrales PDVSA remains interested in purchasing the firm, or at least the storage facilities portion of it. He said that former President (and former DIPPSA partner through BAMER Bank) Rafael Leonardo Callejas (National Party) was attempting to broker such a PDVSA-DIPPSA deal (taking a cut of the deal), and that PDVSA had already offered 50 million USD for the company to Banco Atlantida. It is not clear if this bid was rejected or has simply been postponed. Interestingly, Atala speculated that former majority partner Lamas had sold the firm precisely to avoid having to accept such an offer. According to Atala, Lamas

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had been approached by President Zelaya with the idea of collaborating in some form of PDVSA entry into the market. In this version of events, Lamas -- who has numerous business interests in the U.S. -- chose to sell out to his business partner rather than face the choice between defying his President or potentially alienating the U.S. by selling directly to PDVSA.

19. (C) Further stoking speculation of PDVSA interest in the region, Honduran newspaper La Tribuna on May 10 printed an article that stated with certainty that PDVSA wanted to acquire DIPPSA. The article detailed (accurately) a recent visit by Honduran Labor Minister Ricci Moncada to Caracas (reported in previous cables), and stated that PDVSA President Rafael Ramirez was analyzing the potential purchase of DIPPSA in the context of participating in the upcoming national bid for all of Honduras, fuel needs. The article went on to say (apparently incorrectly) that PDVSA is currently providing ENEC with technical and logistical support, and that the Venezuelan company had recently delivered their first fuel shipment of 140 thousand barrels of diesel fuel to private Honduran electricity generator LUFUSSA. Chukry Kafie, head of LUFUSSA, categorically told EconOff on May 10 that no such deal had been concluded or even considered with PDVSA. In a separate conversation, Exxon supported Kafie's denial, and doubted that PDVSA could deliver a significant quantity of fuel through San Lorenzo without Exxon or DIPPSA knowing about it. (COMMENT: La Tribuna is owned by former President Carlos Flores (Liberal Party), who was one of the first to privately warn Post about such talks with PDVSA. Though many of the details of the story appear to be inaccurate, Post assesses that Flores could be using such press coverage to throw up a yellow flag in an attempt to derail a potential deal involving his old nemesis Callejas. END COMMENT).

¶10. (C) At the recent Latin America) European Union summit held in Vienna May 12, President Zelaya met with Venezuelan President Hugo Chavez and announced that PDVSA was invited to join the up-coming national fuel bid. His announcement mentioned PetroCaribe and the benefits of the generous financing terms offered under the plan, but carefully highlighted the fact that &we have also invited companies from the U.S., Mexico, and the Middle East.8 He went on to detail the many linkages Venezuela has with the U.S., including &eight refineries and 19,000 service stations8 and asked &why can,t they also sell to Central America?8 (NOTE: Venezuela already provides about 40 percent of Honduras, refined petroleum products, mainly through PDVSA,s Curacao refinery and third party traders. END NOTE).

11.(C) Per Corrales, President Zelaya also stated in the IMF meeting that the GOH would not be involved in any financial aspect of the proposed national fuel tender. This contrasts with what the bid's architect Robert Meyeringh had told EconChief and EconOff previously, when he said that he envisioned the GOH &taking title to the fuel at the flange (off-load point), then immediately reselling it to the downstream distributors.8 On the subject of financial risk and sourcing of the estimated 80 million USD required each month, Meyeringh vaguely described a line of credit agreement with the importer and favorable payment terms with the distributors. (NOTE: To EconOff, the normally confident Meyeringh appeared to struggle at this point. It is unclear to us that either he or the GOH have adequately thought this part through. END NOTE.) Without GOH financial support, the funding would need to come directly from the distributors, a group that has been reluctant to participate from the beginning. Given all these potential obstacles, in Corrales, opinion, Zelaya is &setting up the national bid to fail.8 Ominously, however, he challenged the GOH's

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private assurances that such a failure would give them the political room for maneuvering to liberalize the fuels distribution market in Honduras. Instead, he believes the intention of some Zelaya advisors is to allow the current system to fail, thereby allowing Venezuelan President Chavez to ride in as the white knight, hero and savior of the beleaguered Honduran poor.

¶12. (C) COMMENT: While a potential ENEE-PetroCaribe deal has apparently been avoided, PDVSA remains the most likely candidate to bid on and win the national fuel bid. In principle winning the bid would allow PDVSA to supply ENEE, which constitutes about 35 percent of Honduras, fuel needs, while still providing access to PetroCaribe,s generous financing terms. Moreover, through a DIPPSA deal PDVSA would have the opportunity to store and distribute fuel to other Central American countries, most notably El Salvador and Nicaragua. President Zelaya,s comments regarding the lack of GOH financial involvement complicates the matter considerably. If they don,t play the role of financial intermediary, the GOH will not have access to PetroCaribe, which requires a government-to-government sale to make it work. Arturo Corrales, visit to Caracas will attempt to make a private deal involving PetroCaribe, but that precedent will be difficult to set. If, as Corrales indicates, the intention is to make the national bid fail and create an opening for Chavez in a crisis situation, Honduras may be in for a difficult summer. End COMMENT.
Ford